



CITY OF LODI COUNCIL COMMUNICATION

AGENDA TITLE: Approve Issuance of Request for Proposals for Investment Portfolio Management Services (CM)

MEETING DATE: November 19, 2008

PREPARED BY: Budget Manager

RECOMMENDED ACTION: Approve the issuance of a Request for Proposals for Investment Portfolio Management Services

BACKGROUND INFORMATION: The City of Lodi has approximately \$50 million in cash assets available for investment. City staff makes an effort to ensure that balances in our Farmers & Merchants Bank accounts are kept at a level sufficient to conduct City business, while investing a maximum amount in the Local Agency Investment Fund (LAIF). For many years, this approach has met the City's Investment Policy requirements of 1) safety, 2) liquidity and 3) return. However, with interest rates trending downwards, there are now investment options other than LAIF that will be capable of providing a higher rate of return while still providing the safety required by our policy.

The most obvious reason local governments decide to obtain investment portfolio management services is to enhance investment returns. An investment adviser is more likely to achieve rates of return greater than LAIF. However, equally important is the expectation that an investment adviser, as a professional money manager with specialized expertise, will be better able to manage portfolio risk. This is the potential for a particular combination of assets that compose a portfolio to fail to meet the overall objectives of the portfolio due to a poor balance of risks.

Volatile markets, together with complex instruments and strategies, can make investment management a daunting responsibility - all investment options must now be considered very carefully before placing public funds under their control. Given the current level of market volatility, it is particularly important for public agencies to obtain investment portfolio management services to ensure that:

- Safety infrastructure is built into the design of the agency's investment portfolio;
- Disciplined administration of the portfolio and management of portfolio risk is exercised by a practiced investment adviser;
- The market is monitored continuously to identify opportunities to improve return and detect any problems that may be developing on the horizon;
- The portfolio is diversified and the agency has the appropriate level of risk.

APPROVED: 
Blair King, City Manager

The City of Lodi investment policy contains a variety of conditions and restrictions regarding the investment of public funds that are best handled by an investment adviser. Some examples are:

- Investment maturities must be scheduled to coincide with projected cash flow needs, taking into account large routine expenditures such as payroll, bond payments, NCPA payments and contractor payments;
- Investments are restricted to a dozen permitted investment categories – certain categories must be diversified amongst a variety of institutions;
- Credit worthiness of financial institutions must be considered before the deposit or investment of City funds, and these institutions must be continually monitored to ensure their continued stability;
- All investment securities purchased by the City must be held in third-party safekeeping;
- Deposit type securities must be collateralized in specific ratios according to the type of collateral provided. This requirement makes it difficult for public funds to earn rates of return comparable to those earned by private sector entities.

The Internal Services Department lacks resources needed to actively manage a large portfolio that achieves a greater return on investments while conforming to the range of restrictions regarding the investment of public funds contained in our investment policy. Staff recommends engaging the services of an external investment management firm to oversee a major portion of the City's investment portfolio. Each of the City's general liability and workers compensation insurance pools uses the services of a professional investment portfolio manager. Agencies in our region that employ the services of an investment portfolio management firm include: Stockton, Tracy, Fairfield, Rocklin, Roseville and Calaveras County. Many more can be found statewide. As a result, these agencies have enjoyed:

- Improved management and diversification of investment risk;
- Detailed disclosure of investment risk and performance;
- Greater potential for yield and return vs. selected benchmarks.


Beyond generating a superior rate of return, while conforming to the parameters of the City of Lodi Investment Policy, an investment portfolio manager will be able to provide the following:

- The management firm will pay full-time attention to market evaluation and credit research and rebalance the City's portfolio when needed;
- The City will acquire a disciplined investment process consistently applied by a team of seasoned portfolio managers;
- Continuity of the program will be maintained, regardless of staffing or personnel changes;
- The firm will provide information to, and reconcile statements with, our Financial Services Division;
- The firm can assist in preventing arbitrage liability associated with recent Wastewater and Electric bonds issued by the City;
- The firm will implement "best practices" as developed by national and state organizations;
- Comprehensive portfolio accounting and reporting will be provided on a total return and yield basis. This will include:
 - 9 Monthly portfolio summaries;
 - 9 Listings of all holdings including purchase date, cost value, current market value, etc.;
 - Transactions ledgers showing all acquisitions and dispositions;
 - 9 Income earned statements.

FISCAL IMPACT: The City's portfolio can achieve maximum performance with full-time dedicated resources. The City should select an investment advisor to manage roughly \$30 to \$35 million of our portfolio with the remaining \$15 million to \$20 million remaining in LAIF.

It is anticipated the cost of external investment portfolio management services will be approximately 10 to 11 basis points of the managed asset value (approx. \$37,500 annually for the non-LAIF portion of the portfolio). Based on historical performance over the past 10 years, an investment advisor over time could potentially outperform LAIF. On a \$35 million portfolio, depending on investment style, this could translate into an additional \$1.6 million to \$4.7 million over the next decade.

FUNDING AVAILABLE: The cost of external investment portfolio management services will be offset by additional investment earnings.


Kirk J. Evans,
Budget Manager

cc: City Attorney

SUBJECT: NOTICE OF REQUEST FOR PROPOSALS

INVESTMENT PORTFOLIO MANAGEMENT SERVICES

INVITATION:

The City of Lodi (City) invites proposals from qualified firms to provide Investment Portfolio Management Services for the City of Lodi. Proposals must be submitted on or before 3:00 p.m. on Friday, December 19, 2008.

All proposals must be delivered to the address specified below:

**City of Lodi
Budget & Treasury Division
300 West Pine Street
Lodi, CA 95240
Attention: Kirk J, Evans, Budget Manager**

No postmarks will be accepted. All proposals shall be signed by the individual or if corporation, the company official with authority to bind the company in its proposal.

Proposals and amendments to proposals received after the date and time specified above will be returned to the Consultant unopened.

Parties interested in obtaining a copy of this Request For Proposal (RFP) may do so by faxing their request to (209) 333-6795. Please include the following information:

- name of firm
- address
- contact person
- telephone number, facsimile number and e-mail address
- Request For Proposal Investment Portfolio Management Services

Copies of this Request For Proposals may also be obtained by calling the Budget Division at (209) 333-6800 ext. 2888.

Should further information or clarification be needed, please contact Kirk J, Evans, Budget Manager at (209) 333-6708.

TABLE OF CONTENTS

| <u>Section</u> | <u>Page</u> |
|---|-------------|
| I. BACKGROUND AND OVERVIEW | 3 |
| II. REQUIREMENTS FOR SELECTION | 3 |
| III. SCOPE OF SERVICES | 4 |
| IV. CRITERIA FOR EVALUATION AND SELECTION | 4 |
| V. FORMAT FOR PROPOSALS | 5 |
| VI. SELECTION PROCESS | 8 |
| VII. INSTRUCTIONS TO PROPOSERS | 8 |
| EXHIBIT A CITY OF LODI INVESTMENT POLICY | |

CITY OF LODI

Request for Proposal

Investment Portfolio Management Services

I. Background and Overview

The City of Lodi was incorporated in 1906 under the general laws of the State of California. The City is a General Law City operating with a City Council/City Manager form of government. The City Council is elected at large for four-year terms. The City Council meets the first and third Wednesday of each month at 7:00 p.m. at the Carnegie Forum, Council Chambers, 305 West Pine Street, Lodi, California.

The California Government Code authorizes the City Council to delegate the responsibilities for making and receiving of disbursements and receipts, and for investment of surplus funds to the City Treasurer. The City Treasurer acts as the fiscal agent for the City.

The City of Lodi is soliciting proposals from qualified firms for the provision of Investment Portfolio Management Services for City funds. A copy of the City of Lodi's Investment Policy is attached for your information. The City of Lodi currently invests its funds in the Local Agency Investment Fund, Money Market Accounts, and Certificates of Deposit. As of September 30, 2008, the City's portfolio totaled approximately \$65 million in cash and investments.

The City encourages firms to submit the most comprehensive proposal possible, offering the highest quality of service and enhancements to improve the current management of its portfolio.

II. Requirements for Selection

1. The firm shall be a registered Investment Advisor as defined and regulated by the Securities and Exchange Commission (SEC) and shall be registered in the state.
2. The firm shall be either independent of any financial institution or securities brokerage firm or shall fully disclose any relationships with such financial institution and/or securities brokerage firm relevant to the firm's relationship with the entity.
3. The firm shall have a minimum of ten years of experience in managing state/local government operating and bond funds.
4. The firm shall have a minimum of \$2 billion in public sector assets under ongoing and continuous active management.
5. The firm shall have a minimum of \$10 million coverage in errors and omissions insurance or investment advisor professional liability insurance along with a minimum of \$1 million in additional coverage through a fidelity bond.

III. Scope of Services

Services to be provided include, but are not limited to:

- **Development and/or review of the investment policy:** The firm must annually assist in the review of the City's investment policy. The investment policy is presented to the City Council in November of each year.
- **Portfolio management:** The firm must provide full-time management of the City's investment portfolio and effectively invest the City's portfolio pursuant to the approved investment policy and cash flow schedule. The firm will be available for regular and routine communication with City staff as often as City staff deems necessary. The goal is to maximize the return on the City's portfolio while preserving safety and liquidity.
- **Reporting:** The firm must prepare a monthly investment report encompassing all City funds. The firm must prepare the City's disclosure note demonstrating compliance with GASB Statement No. 40 in the City's Comprehensive Annual Financial Report.
- **Credit analysis of investment instruments in the portfolio:** The firm must provide periodic credit analyses of investment instruments in the portfolio at a minimum of once per month, and immediately upon occurrence of a significant event that impacts credit worthiness.
- **Quarterly meetings with City officials:** The firm must attend quarterly meetings with City staff/officials to present and review results of the firm's progress in managing the portfolio.
- **Staff training and education:** The firm must be available to staff to answer questions, provide general guidance, and education in related areas.

The initial term of services is for a period of one year, but may be extended for a period of up to five years total.

IV. Criteria for Evaluation and Selection

Proposals will be evaluated based on the following criteria.

- 25% Experience of the firm in providing services to public sector entities of similar size and with similar investment objectives
- 25% Professional experience and qualifications of the individuals assigned to the account
- 15% Reporting capabilities
- 15% Portfolio advisement and management resources, investment philosophy and recommended approach to management of the investment portfolio
- 10% Responsiveness to the RFP, communicating an understanding of the overall program and services required
- 10% Fees

V. Format for Proposals

Please format your response to this request in the following order to facilitate comparisons between respondents.

A. Organization

1. Describe your organization, including date founded, ownership, and any subsidiary and affiliate relationships relevant to this account.
2. Describe your firm's revenue sources (e.g., investment management, institutional research, etc.) and comment on your firm's financial condition.
3. Has the firm's ownership changed in the last three years?
4. Describe any SEC regulatory censure or litigation related to services the firm provides.
5. Identify the types of accounts primarily sought by your firm.
6. How many portfolios has the firm added in the past year? How many accounts have been discontinued by clients in the past year?
7. Provide a copy of the most recent audited financial statement of your firm.

B. Personnel

1. Identify the number of professionals employed by your firm, by classifications.
2. Provide biographical information on investment professionals that will be involved in the decision making process for the City's portfolio. Describe their relationship with the firm, their experience in the investment business, and specifically with public sector cash management and investments, their professional certifications, and their years of service to the firm. Identify the specific role they would play in this engagement.
3. State whether there has been any turnover of professional staff in the firm in the past year or any additions to professional staff in the past year.
4. Describe your firm's compensation policies for investment professionals.
5. Describe efforts the firm makes to keep its investment professionals informed of developments relevant to government investment advisors.

C. Assets Under Management

1. Provide the number and types of accounts, total asset value, and composition of portfolios currently being managed by your firm.
2. Provide data on account/asset growth and other performance statistics over the past 5 years.
3. List in the following table the percentage by market value of aggregate assets under management for your latest reporting period.

U.S. Treasury securities _____ %

Federal Agency obligations _____ %

Corporate Securities rated AAA-AA _____ %

Corporate Securities rated AA _____ %

Corporate Securities rated A _____ %

Corp. Securities rated BBB or lower _____ %

Other _____ %

4. In the past five years, has your firm purchased and held any security that was subsequently downgraded below the minimum credit ratings required for purchase under the California Government Code?

D. Investment Management Approach and Discipline

1. Describe the firm's investment philosophy.
 - a. Indicate whether it has changed during the past five years.
 - b. Indicate what is distinctive about your philosophy.
2. Describe the types of investment research the firm uses and the methodology used to recommend investment decisions (including maturity and sector selection).
3. Describe the primary strategies for adding value to a portfolio.
4. Describe the firm's daily procedures for portfolio review, investment management/advisement and client contact.
5. Outline the steps that would be taken to ensure the City of Lodi's objectives of safety, liquidity and yield.
6. In connection with our investment policy, would you recommend there be any policy restrictions or other changes?

E. Reporting Capabilities

1. Submit samples of reports that would be provided and describe their frequency. Reports must be prepared in accordance with generally accepted accounting principles (GAAP) and in compliance with Governmental Accounting Standards Board (GASB) pronouncements, including GASB Statements 31 and 40.
2. Describe the frequency and format of performance reports that would be provided.

F. Performance Reporting

1. Please describe how you typically report performance.
2. Please provide performance history for the past five years, for current accounts comprised of securities with maturities, quality and sectors similar to those of the City of Lodi. Indicate whether your returns are calculated and compiled in accordance with AIMR standards. If not, how does the presentation differ from AIMR standards?
3. Do your reports conform to State reporting standards? Are you willing to customize your reports to meet our specifications?
4. Are confirmations of investment transactions sent directly by the broker/dealer to the client?

G. Other Considerations

1. Provide five names of public sector entities whose funds are under direct and continuous management by the firm. Please include contact persons, telephone numbers and length of time the firm has managed the assets.
2. Describe the firm's experience in developing investment policies for public sector clients.
3. Describe the firm's approach to managing relationships with the broker/dealer community.
4. Describe any assistance the firm would provide in reviewing custodial and safekeeping arrangements.
5. Describe the type and frequency of credit analysis that would be provided on investments in the portfolio.
6. How many credit analysts does your firm employ?
7. Describe the nature and frequency of meetings and/or communications the firm would recommend to keep staff informed.
8. Provide a copy of the firm's Form ADV, Part II, as on file with the SEC.

H. Fees

1. Please include a copy of your firm's fee schedule applicable to this Request for Proposal.
2. Is there a minimum annual fee? If so, what is it and how is it determined?
3. Identify any expenses that would not be covered through this fee structure and would be required in order to implement the firm's program.

VI. Selection Process

Upon receipt of the proposal, City staff will review each firm's response to this RFP. Failure to properly address all the items set forth above may disqualify the prospective firm's proposal. The City reserves the right to reject any or all proposals at its sole discretion. At their discretion, staff may interview one or more consultants to further assist in the review process. City reserves the right to award the contract to consultant at its discretion depending upon multiple areas of criteria.

Time Frame for Selection and Implementation

| | |
|--------------------------|----------------------------------|
| December 5, 2008 | Deadline for Questions |
| December 19, 2008 | Proposals due by 3:00 pm |
| January 9, 2008 | Evaluation of Proposals Complete |
| Week of January 12, 2008 | Interviews of Firms |
| January 23, 2008 | Award of Contract |

The City of Lodi reserves the right to cancel and/or modify the above dates at anytime or to make a dual appointment.

VII. Instructions to Proposers

A. Submission of Proposals

Proposals must be submitted on or before 3:00 p.m. on Friday, December 19, 2008.

Proposals received after the above-specified date and time will be returned to proposers unopened.

Proposals delivered in person or by other means shall be submitted to the following:

**City of Lodi
Budget Division
Attn: Kirk J. Evans
300 West Pine Street
Lodi, CA 95240**

Proposals shall be submitted in two (2) separately sealed packages. Each package shall be marked as specified below. Proposer shall submit Package No. 1 (Technical Proposal) with an original and five (5) copies of its proposal in a sealed package, addressed as shown above, bearing the proposer's name and address and clearly marked as follows:

"RFP: INVESTMENT PORTFOLIO MANAGEMENT SERVICES PROPOSAL"

Proposer shall submit Package No. 2 (Price Proposal) with fees from Section V.H. with originals in a sealed package addressed as shown below, bearing the proposer's name and address and clearly marked as follows:

"RFP: INVESTMENT PORTFOLIO MANAGEMENT SERVICES PROPOSAL-PRICE PROPOSAL"

The City of Lodi reserves the right to accept or reject any and all proposals, or any item or part thereof, or to waive any informalities or irregularities in proposals. The City of Lodi reserves the right to withdraw this RFP at any time without prior notice and the City makes no representations that any contract will be awarded to any proposer responding to this RFP. The City reserves the right to award portions of the Scope of Work as it deems necessary.

The City reserves the right to award this RFP to other than the lowest bidder.

All proposals received by the due date and time, irrespective of irregularities or informalities, will be opened and the names of the proposers will be publicly read aloud at the submittal deadline. ***No other information will be released until after the award.***

All interested persons are invited to be present at the opening and reading of proposals.

The City of Lodi reserves the right to postpone the submittal deadline and opening of proposals any time before the date and time announced in the Request for Proposals or subsequent addenda.

Failure to comply with all requirements of this RFP and any subsequent amendments issued may result in the proposer's proposal being excluded from further evaluation.

B. Other

The proposer shall furnish the City such additional information as the City may reasonably require.

The City reserves the right to conduct personal interviews of any proposer prior to selection. The City will not be liable for any cost incurred by the proposer in connection with such interview (i.e., travel, accommodations, etc.)

The City must approve all changes in personnel assigned to this engagement.

Proposer is expected to fully inform themselves as to the conditions, requirements, and specifications before submitting proposals. Failure to do so will be at proposer's own risk and they cannot secure relief on the plea of error.